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ORIGIN SS-15

INFO OCT-01 ISO-00 SSO-00 /016 R

66615

DRAFTED BY EB:JMDERHAM:DA

APPROVED BY EB:PHBOEKER, WCTING

S/S-O: J. HOGASON

DISTRIBUTION: EB, ISO (ONLY)

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R 152026Z OCT 75

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EXDIS

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FOL REPEAT JIDDA 6888 SENT ACTION SECSTATE INFO
ABU DHABI AMMAN BEIRUT CAIRO DAMASCUS DHAHRAN
DOHA KUWAIT MUSCAT TEHRAN OCT 12

QTE

S E C R E T JIDDA 6888

EXDIS

E.O. 11652: XGDS-1

TAGS: PINT, SA

SUBJECT: CORRUPTION AND ECONOMIC PRESSURE ON THE MIDDLE CLASS

REF: (A) JIDDA A-97 DECEMBER 1974

(B) JIDDA 6632

BEIRUT ALSO PASS BAGHDAD

SUMMARY:

IN THE PERIOD SINCE THE DEATH OF KING FAISAL THERE HAS

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PROBABLY BEEN A GROWTH IN PUBLIC CORRUPTION IN THE KING-

DOM; IT HAS CERTAINLY BECOME A SUBJECT OF GREATER PUBLIC INTEREST. THE IMPLEMENTATION OF SAUDI ARABIA'S AMBITIOUS DEVELOPMENT PLANS IS GREATLY EXPANDING THE POSSIBILITIES FOR GRAFT. THE ECONOMIC SQUEEZE BEING FELT BY THE MIDDLE CLASS--FOR REASONS UNRELATED TO CORRUPTION--COULD COMPOUND DISSATISFACTION AT REAL OR RUMORED PUBLIC MALFEASANCE. THIS DISCONTENT HAS PROBABLY NOT YET GROWN TO THE POINT OF POSING A THREAT TO THE REGIME BUT THE CONTINUED GROWTH OF CORRUPTION COULD ALTER THE SITUATION. END SUMMARY:

1. FOR ABOUT TWO YEARS NOW THE EMBASSY HAS BEEN WATCHING, AS CLOSELY AS POSSIBLE, THE GROWING CORRUPTION IN SAUDI ARABIA. OUR CONCERN HAS BEEN THAT VITAL US INTERESTS COULD BE EFFECTED BY IT. REF A WAS A DETAILED LOOK INTO THE SUBJECT. AMONG THE CONCLUSIONS OF THAT REPORT WAS THAT KING FAISAL STRONGLY OPPOSED AND WAS A CHECK ON THE GROWTH OF CORRUPTION BUT THAT FAIRLY SOON AFTER HIS PASSING FROM THE SCENE CORRUPTION COULD GROW TO A POINT WHERE IT MIGHT BECOME A THREAT TO AN OTHERWISE REMARKABLY STABLE REGIME. FAISAL HAS BEEN DEAD FOR OVER SIX MONTHS. IN THAT PERIOD CORRUPTION HAS BECOME AN INCREASINGLY OBTRUSIVE FACT OF LIFE IN THE KINGDOM.

2. WE SUSPECT THAT PUBLIC CORRUPTION HAS BEEN ON THE INCREASE BUT PRECISE QUANTITATIVE JUDGEMENTS IN THIS MURKY AREA ARE IMPOSSIBLE. WHAT IS CERTAIN IS: A) GREATER AWARENESS OF THE EXISTENCE OF CORRUPTION, PARTICULARLY ON THE PART OF THE FOREIGN BUSINESS COMMUNITY; B) GREATER OPPORTUNITIES FOR ILLICIT ENRICHMENT AS THE COUNTRY ATTEMPTS FORCED-DRAFT ECONOMIC DEVELOPMENT; AND C) AN ECONOMIC SQUEEZE OF THE MIDDLE CLASS FOR A VARIETY OF REASONS (INFLATION, SOARING LAND PRICES AND RENTS ETC.) WHICH IS BEING BLAMED AT LEAST PARTLY ON OFFICIAL CORRUPTION OR INDIFFERENCE.

3. FOREIGN BUSINESSMEN IN SAUDI ARABIA HAVE BEEN MAKING ACCOMMODATIONS WITH THEIR CONSCIENCES FOR THE SAKE OF DOING BUSINESS FOR MANY YEARS. AMONG THEM, CORRUPTION HAS NOT, HOWEVER, GENERALLY BEEN A TOPIC OF POLITE CONVERSATION. THE US HAS HAD A ROLE IN CHANGING THIS SITUATION;

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INVESTIGATIONS BY THE SEC AND CONGRESSIONAL COMMITTEES HAVE PRODUCED ALLEGATIONS OF IMPROPER PRACTICES HERETOFORE ONLY ALLUDED AT. THAT AND THE SHEER NUMBER OF FOREIGN BUSINESSES TRYING TO MAKE A KILLING IN SAUDI ARABIA HAVE MADE CORRUPTION A PRIME TOPIC OF CONVERSATION AT GATHERINGS WHERE SAUDIS ARE NOT PRESENT (FREQUENTLY TO THE AMUSEMENT OF EUROPEAN AND THE EMBARRASSMENT OF AMERICAN BUSINESSMEN). MORE INFORMATION IS COMING AVAILABLE. FOR

INSTANCE, WITH THE SUBJECT OUT OF THE CLOSET THE HEAD OF A EUROPEAN BANK BRANCH CONFIDED THAT HIS BANK HAD BEEN HANDLING AN INCREASING NUMBER OF TRANSACTIONS INVOLVING PAYMENT OF THE TWENTY PERCENT ADVANCE PAYMENT GUARANTEE, THE ORIGINAL PAYMENT FROM WHICH MOST BRIBES AND AGENTS' FEES ARE TRADPTIONALLY EXTRACTED.

4. THE EXTREMELY CONSERVATIVE MINISTRY OF FINANCE, UNDER ITS SCRUPULOUSLY HONEST HEAD PRINCE MUSA'ID BIN ABD AL RAHMAN, BY VIRUTE OF ITS EXTENSIVE AUTHORITY OVER EXPENDITURES HAS TRADITIONALLY BEEN REGARDED AS A FAIRLY EFFECTIVE CHECK ON CORRUPTION--BUT UNFORTUNATELY HAS ALSO BEEN AN EFFECTIVE BLOCK TO EFFICIENT SPENDING FOR RAPID ECONOMIC DEVELOPMENT. THE RESIGNATION IN AUGUST OF PRINCE MUSA'ID HAS SINCE BEEN PORTRAYED BY SOME AS THE DELIBERATE ELIMINATION OF A MAJOR IMPEDIMENT TO GRAFT. 5#8 8 -)- MOST CERTAINLY NOT THE REASON BEHIND HIS RESIGNATION; IT MORE PROBABLY RELATES TO HIS OBJECTIONS TO PLANS TO STRIP HIS MINISTRY OF MANY OF ITS PRESENT FUNCTIONS. HOWEVER, THE JUDGEMENT AS TO THE EFFECT HIS RESIGNATION IS LIKELY TO HAVE ON THE GROWTH OF CORRUPTION MAY PROVE TO BE CORRECT. IF, AS SEEMS LIKELY, THE FINANCE MINISTRY NO LONGER HAS CONTROL OVER THE PREPARATION OF THE BUDGET AND THE RIGHT TO SCRUTINIZE MINISTERIAL REQUESTS FOR EXTRAORDINARY EXPENDITURES, THE SCOPE FOR CORRUPTION WILL INDEED HAVE BEEN BROADENED. MOREOVER, THE COUNCIL OF MINISTERS HAS RECENTLY CREATED TWO "ROYAL COMMISSIONS" OUTSIDE THE NORMAL BUDGETARY PROCEDURE WITH BROAD POWERS TO PROMOTE THE MULTI-BILLION DOLLAR DEVELOPMENT OF JUBAYL AND YENBO, THE FUTURE INDUSTRIAL REGIONS OF THE COUNTRY (REF B). MORE ROYAL COMMISSIONS WILL PROBABLY BE CREATED IN THE NEAR FUTURE WITH MUCH THE SAME POWERS TO AUTHORIZE THE EXPENDITURE OF VAST SUMS OF MONEY ON

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AN EXPEDITED BASIS. THE POSSIBILITIES FOR IMPROPER DIVERSION OF PUBLIC MONIES HAS INCREASED DRAMATICALLY.

5. THIS POTENTIAL FOR CORRUPTION IN THE DEVELOPMENT OF THE CIVILIAN SECTOR OF THE ECONOMY HAS BEEN PARTLY COMPENSATED FOR BY THE RECENT COUNCIL OF MINISTERS DECISION BANNPNG THE PAYMENT OF COMMISSIONS ON PURCHASES OF MILITARY EQUIPMENT (THOUGH THE DECREE IS AMBIGUPUS AS REGARDS THE EVEN MORE LUCRATIVE AREA OF DEFENSE CONSTRUCTION AND SUPPORT SERVICES). VAST AS SAUDI DEFENSE SPENDING HAS BEEN AND IS PROGRAMMED TO BE FOR THE FUTURE, IT PALES IN COMPARISON WITH PLANNED SPENDING FOR THE CIVILIAN SECTOR WHICH IS ONLY NOW BEGINNING TO GET UNDER WAY.

6. IT IS DIFFICULT TO JUDGE THE EXTENT TO WHICH CORRUP-

TION MAY HAVE BECOME A SUBJECT OF INCREASED INTEREST TO THE SAUDI POPULACE IN GENERAL. WITH MOST SAUDIS THIS SUBJECT HAS BEEN AND REMAINS TABU. WITH OTHERS, INCLUDING FAIRLY HIGH OFFICIALS, WE HAVE DISCUSSED THE SUBJECT WITH CANDOR FOR SOME TIME. THOSE WHO ARE WILLING TO DISCUSS IT, NOW SHOW SOMEWHAT GREATER CONCERN--PERHAPS BECAUSE OF OTHER FACTORS NOT NECESSARILY RELATED TO CORRUPTION WHICH ARE CAUSING FINANCIAL DIFFICULTIES FOR THE SAUDI POPULACE SUCH AS INFLATION AND THE VASTLY INCREASING COSTS OF URBAN LAND AND RENTS.

7. SUCH FACTORS DO NOT FALL DIRECTLY UNDER THE OUTLINE OF CORRUPTION, BUT BY THEIR IMPACT ON THE GROWING MIDDLE CLASS, THEY ENHANCE THE SENSITIVITY OF MANY SAUDIS TO INEQUITIES AND MALFUNCTIONS IN THEIR SYSTEM. INFLATION, OF COURSE, IS HARDLY UNIQUE TO SAUDI ARABIA AND, IN THE CASE OF THE POOR, HAS PARTLY COMPENSATED FOR BY GOVERNMENT SUBSIDIES ON BASIC COMMODITIES SUCH AS SUGAR, RICE AND COOKING OIL. (AND THIS IN TURN HAS GIVEN RISE TO LIVELY ILLICIT EXPORT TRADE IN SUGAR, RICE ETC.) ITS BURDEN IS FELT PARTICULARLY BY THE MIDDLE CLASS WHICH ADDITIONALLY SEES AN INCREASING PERCENTAGE OF ITS MONTHLY INCOME BEING EATEN UP BY RENT. THOSE WITH MONEY PUT ASIDE WHO HAD HOPED SOON TO BUILD A HOME MUST OFTEN ABANDON THEIR PLANS, AS LAND COSTS SPIRAL OUT OF SIGHT, CLOSELY FOLLOWED BY THE COSTS OF CONSTRUCTION.

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8. THE GOVERNMENT, OPERATING UNDER THE PRINCIPLE THAT A HAPPY HOME OWNER IS A HAPPY CITIZEN, HAS ENACTED A UNIQUELY GENEROUS PLAN TO ENCOURAGE HOME OWING. (AN INTEREST FREE LOAN ON SEVENTY PERCENT OF THE COST OF BUILDING BUT ONLY FIFTY PERCENT TO BE REPAID, THE REST REPORTEDLY TO BE EXCUSED). HOWEVER, THE PAINFUL CATCH IN THIS SCHEME IS THAT A PREREQUISITE TO GETTING A LOAN IS THE OWNERSHIP OF LAND. AND GOVERNMENT PRACTICE HAS DIRECTLY CONTRIBUTED TO THE PROHIBITIVE COST OF URBAN OR SUBURBAN LAND ANYWHERE NEAR WATER AND OTHER ESSENTIAL UTILITIES. THE PURSE ALLOTTED TO THE PRINCES HAS REMAINED CONSTANT (AND VERY SMALL) FOR QUITE SOME YEARS, BUT IT HAS BEEN COMMON PRACTICE TO ASSIGN LAND AROUND THE MAJOR CITIES TO THEM TO HELP MAKE ENDS MEET. MUCH OF WHAT HAS BEEN SUBSEQUENTLY SOLD HAS FALLEN INTO THE HANDS OF SPECULATORS WHO HAVE BEEN ENRICHING THEMSELVES WITH NO APPARENT END TO THE BOOM IN SIGHT. ALSO PUSHING UP PRICES HAVE BEEN THE FOREIGN BUSINESSMEN WHO HAVE GENERALLY INCLUDED THE EXORBITANT COST OF HOUSING THEIR PERSONNEL IN THEIR CONTRACT BIDS (THOUGH THOSE WITH FIXED COST CONTRACTS DATING BACK SEVERAL YEARS NOW FIND THEMSELVES IN A BIND).

9. THERE IS NOTHING INHERENTLY CORRUPT ABOUT THE PRACTICE OF GIVING ROYAL LAND TO THE PRINCES. HOWEVER, SINCE THE RESULT HAS BEEN SO PAINFUL AND THE CAUSE SO EVIDENT THERE HAS UNDOUBTEDLY BEEN A LINKING IN THE PUBLIC MIND WITH OTHER LESS HALLOWED PRINCELY PRIVILEGES. THERE HAS UNDOUBTEDLY BEEN A GROWTH OF PUBLIC DISSATISFACTION AT OFFICIAL FAILURE TO DEAL WITH THIS PROBLEM.

10. OUR CONCLUSION REMAINS ROUGHLY THAT OF THE REFERENCED AIRGRAM; DISCONTENT WITH CORRUPTION AND ECONOMIC PRESSURES HAVE PROBABLY NOT YET GROWN TO THE POINT WHERE THEY HAVE BECOME A THREAT TO THE STABILITY OF THE COHESIVE AND STILL WIDELY POPULAR SAUDI REGIME. THE CONTINUED GROWTH OF THESE FACTORS, HOWEVER, PRESENTS A REAL THOUGH PERHAPS NOT YET IMMEDIATE DANGER. WE UNFORTUNATELY SEE LITTLE THAT WE CAN DO BEYOND WHAT HAS ALREADY BEEN RECOMMENDED.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CORRUPTION, ECONOMIC CONDITIONS, PUBLIC ADMINISTRATION, BUSINESS FIRMS, POLITICAL SITUATION, PUBLIC ATTITUDES
Control Number: n/a
Copy: SINGLE
Draft Date: 15 OCT 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE245055
Document Source: CORE
Document Unique ID: 00
Drafter: JMDERHAM:DA
Enclosure: n/a
Executive Order: X1
Errors: N/A
Film Number: D750359-0026
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751054/aaaabwfu.tel
Line Count: 249
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: 75 JIDDA A-97
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 27 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 MAY 2003 by CunninFX>; APPROVED <06 OCT 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CORRUPTION AND ECONOMIC PRESSURE ON THE MIDDLE CLASS
TAGS: PINT, SA
To: OECD PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006